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SUBJECT: THE IBSA INITIATIVE: SOUTH-SOUTH TRADE AND INVESTMENT COOPERATION

REF: Pretoria 4070

¶1. (U) Summary. Discussing their joint research on IBSA (India, Brazil, and South Africa) trade and investment cooperation, three panelists from each of the countries involved highlighted the lack of experience, trade barriers, the cost of doing business, and cultural differences as reasons for the relative lack of trade and investment among the three. Trade among IBSA countries still only amounted to about 1% of combined trade. Nevertheless, each of the three countries was beginning to attract investment from the others. The predisposition to do business in one country rather than another appeared to be based upon comfort levels that came from a shared colonial heritage or shared levels of modernity. All three panelists agreed that initial cultural and business attitudes would likely change with experience and with time. The IBSA initiative is a conscious effort by the three governments to promote South-South cooperation. End Summary.

BACKGROUND

¶2. (U) On October 27, Business Unity South Africa (BUSA) and the South African Institute of International Affairs (SAIIA) hosted a panel discussion to present the findings of a research project entitled "South-South Trade and Investment Cooperation: Exploring the IBSA Initiative." The South African Institute of International Affairs (SAIIA), the Brazilian Institute for International Trade Negotiations (ICONI), and the Indian CUTS-Centre for International Trade, Economics, and Environment (CUTS-CITEE) jointly undertook the project to explore and analyze trade and investment between IBSA countries. Panelists included Mr. Parashar Kulkarni (CUTS-CITEE), Dr. Mills Soko (SAIIA) and Mr. Mario Marconini (ICONI).

THE PERCEPTION

¶3. (U) According to the panelists, more than 70% of the companies interviewed by the research project were unaware of the existence of the IBSA initiative. For the most part, they had not been informed nor had they been involved in IBSA processes. Many companies thought that politics was the driving force behind IBSA rather than the prospect for economic gain. Kulkarni commented that most companies supported the idea of expanding economic ties among the IBSA countries. However, some feared the prospect of increased competition, especially those in the motor vehicle, textile, steel, and food industries. All three panelists expressed doubts about the capacity of IBSA governments to negotiate significant trade agreements among themselves.

THE REALITY

¶4. (U) Despite differences in land mass, population, and cultural profile, Kulkarni argued that IBSA countries shared many of the same challenges in overcoming poverty, pursuing economic development, and achieving social equity. In addition, all three were respected examples of progressive democracies in the developing world, forming the core of the G-20 at WTO talks in Cancun -- where they agreed to forge the IBSA alliance. Notwithstanding, trade among the three -- though growing for ten years -- still only amounted to about 1% of combined trade. An array of tariff and non-tariff barriers in India and Brazil seemed to explain this. Other reasons, according to Soko, were red tape, government regulations, high transaction costs, lack of transportation links,

strict import regulations, cumbersome customs procedures, corruption, and insufficient protection of intellectual property rights. All three panelists agreed that the high cost of doing business -- particularly shipping - as well as language and cultural differences were primary factors limiting the growth of IBSA trade.

BRAZIL

15. (U) Soko commented that South African investors were attracted to Brazil because of its large, diversified, and relatively open market. In addition, Brazil was a potential springboard into the rest of South America. South African companies with a presence in Brazil included SAPPI (paper producer), AngloAmerican (mining), Safmarine (maritime services), Alexander Forbes Financial Services, Dex Brasil (technology), Datacraft (information services), Barham Financial Services, Macsteel International (steel), NOSA (safety and health), and Volcano Agroscience. Soko believed that possible export opportunities for South Africa existed in aluminium, synthetic fibers, chemicals, iron and steel, furniture, as well as fruit and vegetables.

INDIA

16. (U) Soko commented that South African investors were attracted to India for its immense domestic market, huge economies of scale and manufacturing capacity, and the availability of low-cost labor as well as high quality managers. In addition, India was a potential gateway to other Asian markets. South African companies with a presence in India included Shoprite (retail grocery), AngloAmerican (mining), De Beers (diamond marketing), Ceres (citrus products), Old Mutual (financial), South African Breweries, Interpark (toll road development and operations), LTA Grinaker (engineering and construction) and Eskom (the world's seventh largest electric utility).

SOUTH AFRICA

17. (U) Marconini commented that Brazilian investors saw South Africa as a business hub for the rest of sub-Saharan Africa. Brazilian manufacturers might be attracted to South Africa to invest in machinery and equipment, aircraft and aircraft parts, as well as automobile plants. Indian companies saw South Africa as a gateway to other African markets, as well as a country with sophisticated infrastructure, a strong financial sector, and a developed consumer market. Thirty-five Indian companies had already established a presence in South Africa in such diverse industries as computer software, information technology, banking, automotive, and pharmaceuticals.

PREDISPOSITIONS

18. (U) The panelists agreed that each country seemed to have a predisposition to do business with a country that did not always reciprocate. South African firms seemed to be predisposed to doing business in and with India because of a shared history of British colonialism. This gave them both legal systems based on British law and fostered a cultural affinity between the two. Brazilian firms seemed to be predisposed to doing business in and with South Africa because they found the business culture of India problematic. No assessment was made about India's predisposition. The three panelists agreed that these initial cultural and business attitudes would likely change with experience and with time.

HARTLEY